

THE OFFICE OF REGULATORY STAFF

DIRECT TESTIMONY

OF

A. RANDY WATTS

AUGUST 20, 2009



DOCKET NO. 2009-168-E

**PROGRESS ENERGY CAROLINAS, INC.'S MOTION FOR
PARTIAL WAIVER OF COMMISSION RULES 103-331 AND
103-336**

DIRECT TESTIMONY OF

A. RANDY WATTS

ON BEHALF OF

THE SOUTH CAROLINA OFFICE OF REGULATORY STAFF

DOCKET NO. 2009-168-E

GENERIC PROCEEDING

**IN RE: PROGRESS ENERGY CAROLINAS, INC.'s MOTION FOR PARTIAL WAIVER
OF COMMISSION RULES 103-331 AND 103-336**

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND OCCUPATION.

A. My name is Randy Watts. My business address is 1401 Main Street, Suite 900, Columbia, South Carolina 29201. I am employed by the State of South Carolina as Program Manager of the Electric Department for the Office of Regulatory Staff ("ORS").

Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A. I received a Bachelor of Science Degree in Electrical Engineering from the University of South Carolina in Columbia in 1976. I was employed at that time by the Public Service Commission of South Carolina ("Commission") as a Utilities Engineer in the Electric Department and was promoted to Chief of the Electric Department in August 1981. Subsequent to internal Commission restructuring, my position was redesignated Chief of Electric in October 1999. I remained in that role until transferring to my current position with ORS in January 2005. I have testified on numerous occasions before the Commission in conjunction with fuel clause, complaint, territorial assignment, Siting Act, Base Load Review Act and general rate case proceedings.

1 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

2 **A.**The purpose of my testimony is to provide ORS's comments addressing the
3 proposed expansion to all South Carolina investor-owned electrical utilities of the partial
4 waiver of Commission Rule 103-331 and a partial waiver of Rule 103-336. Duke Energy
5 Carolinas, LLC ("Duke") is the only South Carolina utility that currently has a waiver of
6 Rule 103-331 in place. The Commission in its Notice of Generic Hearing in this matter
7 indicated a desire to have uniformity among the utilities regarding these Rules, and
8 directed Progress Energy Carolinas, Inc. ("Progress"), Duke, South Carolina Electric &
9 Gas Company ("SCE&G"), Lockhart Power Company ("Lockhart"), and ORS to file
10 testimony in this proceeding.

11 **Q. MR. WATTS, ARE YOU FAMILIAR WITH DUKE'S ORIGINAL REQUEST**
12 **FOR A PARTIAL WAIVER OF RULE 103-331?**

13 **A.**Yes. Duke made its request in June 2004 under Docket No. 2004-169-E for a
14 partial waiver of Rule 103-331 to be applicable to the deposit requirements of non-
15 residential accounts. At that time the Commission expressed concern and a desire for
16 additional information regarding such issues as specificity of evaluation criteria,
17 applicability, impact to economic development, impact on distressed industries,
18 comparability to treatment in North Carolina and experiences in that state, and
19 availability of an appeal process. Duke provided the Commission with additional
20 information addressing these questions and concerns in early July 2004. The
21 Commission, in an abundance of caution, approved the request on a one-year
22 experimental basis and required Duke to report at the end of the one year period on the
23 use of this provision including any resulting complaints. In September 2005, Duke

provided the Commission with a report reflecting the waiver had yielded only one customer that was identified as needing to accelerate payments, and no customer complaints were received. The Commission subsequently issued Order No. 2005-600 in October 2005 continuing the partial waiver on a non-experimental basis.

Q. WHAT IS ORS'S ASSESSMENT OF THE EFFECTIVENESS OF THE WAIVER AT THIS POINT?

A. It appears that Duke has been very successful in applying the evaluation and rating criteria and then analyzing the resulting credit worthiness of its nonresidential customers. Duke states that, once it is determined that a customer meets the threshold for a deposit requirement, Duke attempts to work with the customer on security options that do not involve the payment of a two-month cash deposit such as an accelerated payment plan, surety bond, bank letters of credit or some combination of these. Under this procedure Duke has mitigated the risk while minimizing the impact to the customer as well as the potential burden on the general body of ratepayers from uncollectibles. Duke reports that during 2007 and 2008 a total of 41 accounts with a monthly revenue exposure of \$10.8 million met the criteria for review and only 5 of these were determined to require a form of security. Application of the procedures in these cases assisted in the mitigation of losses that would have resulted when 4 of these 5 accounts went into bankruptcy. Also for this calendar year through June 2009 Duke states it has been able to mitigate losses of approximately \$900,000 on two (2) customer accounts that went into bankruptcy due to the use of these approved guidelines in conjunction with the Rule waiver. Through use of the partial waiver of Rule 103-331 and application of the criteria for review of customers' credit worthiness Duke has been able to avoid losses and

BEFORE
THE PUBLIC SERVICE COMMISSION
OF SOUTH CAROLINA
DOCKET NO. 2009-168-E

IN RE:

Progress Energy Carolinas, Incorporated's Motion)	
for Partial Waiver of Commission Rules 103-331)	CERTIFICATE OF
and 103-336)	SERVICE
)	

This is to certify that I, Chrystal L. Morgan, have this date served one (1) copy of the **DIRECT TESTIMONY OF A. RANDY WATTS** in the above-referenced matter to the person(s) named below by causing said copy to be deposited in the United States Postal Service, first class postage prepaid and affixed thereto, and addressed as shown below:

Len S. Anthony, Esquire
Progress Energy Carolinas, Incorporated
Post Office Box 1551
Raleigh, NC, 27602

Catherine E. Heigel, Associate General Counsel
Duke Energy Carolinas, LLC
Post Office Box 1006, EC03T
Charlotte, NC, 28201-1066

M. John Bowen, Jr., Esquire
McNair Law Firm, P.A.
Post Office Box 11390
Columbia, SC, 29211

Margaret M. Fox, Esquire
McNair Law Firm, P.A.
Post Office Box 11390
Columbia, SC, 29211

K. Chad Burgess, Senior Counsel
South Carolina Electric & Gas Company
1426 Main Street, MC 130
Columbia, SC, 29201



Chrystal L. Morgan

August 20, 2009
Columbia, South Carolina